

**Scholz Holding GmbH, Essingen**

Half Year Group Accounts and Management Report  
30.06.2015

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I.

Scholz Holding GmbH, Essingen

German GAAP consolidated balance sheet as of 30 June 2015

Assets	31.12.2014		Equity and liabilities	31.12.2014	
	TEUR	TEUR		TEUR	TEUR
<b>A. Fixed assets</b>			<b>A. Equity</b>		
I. Intangible assets	<u>22.203</u>	<u>26.296</u>		<u>-233.730</u>	<u>-216.890</u>
II. Property, plant and equipment	<u>413.004</u>	<u>429.304</u>	<b>B. Translation reserves</b>	<u>2.472</u>	<u>2.344</u>
III. Financial assets	<u>76.211</u>	<u>75.864</u>	<b>C. Special items</b>	<u>56.028</u>	<u>59.294</u>
		511.418	<b>D. Liabilities</b>		
		<u>531.464</u>	1. Bond	<u>182.500</u>	<u>182.500</u>
<b>B. Current assets</b>			2. Liabilities to banks	<u>716.862</u>	<u>748.215</u>
I. Inventories	<u>164.305</u>	<u>188.237</u>	3. Trade payables	<u>235.825</u>	<u>235.651</u>
II. Receivables and other assets			4. Other liabilities	<u>138.662</u>	<u>164.334</u>
1. Trade receivables	<u>182.840</u>	<u>170.818</u>		<u>1.273.849</u>	<u>1.330.700</u>
2. Other assets	<u>180.532</u>	<u>226.125</u>	<b>E. Deferred income</b>	<u>6.239</u>	<u>3.195</u>
	<u>363.372</u>	<u>396.943</u>			
III. Cash on hand and bank balances	<u>40.184</u>	<u>37.415</u>			
		<u>567.861</u>			
<b>C. Prepaid expenses</b>		<u>4.910</u>			
<b>D. Deferred tax assets</b>		<u>20.669</u>			
		<u>4.093</u>			
		<u>20.491</u>			
		<u>1.104.859</u>		<u>1.104.859</u>	<u>1.178.643</u>
		<u>1.178.643</u>			

## II.

### Scholz Holding GmbH, Essingen Consolidated income statement for 01.01.-30.06.2015

	TEUR	01.01.-30.06.2014 TEUR
1. Total output	<u>1.330.255</u>	<u>1.609.183</u>
2. Other operating income	<u>19.801</u>	<u>31.068</u>
3. Cost of materials		
a) Cost of raw materials, consumables and supplies and of purchased merchandise	1.009.309	1.275.700
b) Cost of purchased services	<u>58.637</u>	<u>45.477</u>
	<u>1.067.946</u>	<u>1.321.177</u>
4. Amortization, depreciation and write downs of intangible assets and property, plant and equipment	30.274	28.728
5. Other operating expenses and personnel expenses	<u>226.083</u>	<u>246.857</u>
	<u>256.357</u>	<u>275.585</u>
6. Financial result	<u>-29.915</u>	<u>-37.136</u>
7. Results from ordinary activities	<u>-4.161</u>	<u>6.353</u>
8. Extraordinary result	<u>-6.081</u>	<u>74.202</u>
9. Income taxes and other taxes	<u>4.121</u>	<u>2.705</u>
10. Group retained earnings	<u>-14.362</u>	<u>77.850</u>

### **III. Group Management Report for the Six Months Ending 30 June 2015**

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#### **A. Development of Business**

##### **1. General Economic Situation**

According to the IMF, the pace of worldwide economic growth fell short of expectations in the winter half year 2014/2015. Growth levels in particular of some industrialised countries were lower than expected in the first half of 2015. This was partly the result of the adverse influence on the US economy of the strengthening of the US Dollar and the hard winter experienced locally as well as reduced investment levels in the oil industry as a result of the sharp decline in oil prices.

In the first half of 2015, the Eurozone was under the influence of the Greek debt issue as well as the ECB bond purchase programmes, which had a significant effect on the financial and currency markets. Whilst a slight strengthening of the Euro was noted in the second quarter of 2015, the common currency remains on a low level in comparison to the US Dollar after a significant decline in the second half of 2014 as well as the first quarter of 2015, which had a slight strengthening effect on the Eurozone economy. Furthermore, positive business impulses arose as a result of low interest rates and an improved credit supply. Under these circumstances, in the first half year of 2015 the gross domestic product (GDP) of the Eurozone increased by 1.0% in comparison to the prior year.

In the light of the steady development in the Eurozone, first quarter economic growth was moderate in Germany, with first quarter 2015 GDP increasing by 1.1% in comparison to the prior quarter. This growth is mainly driven by strong consumption levels as well as the development of the construction sector. On the other hand, industrial growth has only shown a slight upwards trend. In view of the positive development in the first quarter, annual growth is expected to amount to 1.7%, according to Deutsche Bundesbank. Notwithstanding this, various risks exist that could undermine the economic development in Germany and Europe during the further course of 2015. In our opinion, specific risks exist concerning the resurgence of the national debt crisis and the unforeseeable consequences of the quantitative easing programme of the European Central Bank, which could become apparent in the second half of 2015 with corresponding effects on our business development. Furthermore, a further strengthening of the Euro could have a negative impact on the international competitiveness of Germany and Europe. Moreover, doubts as to the sustainability of the growth perspectives of the Chinese economy have resulted in turbulences on the global stock markets, which may also have a negative impact on the further economic outlook as well as, in particular, the further development of the commodities market.

## 2. Sector-specific developments

- The development of the steel and metal industry, which is of particular relevance for the Scholz Group, sets out the business parameters for the recycling sector in the first half year 2015. According to the World Steel Association, changes in production volumes showed a very uneven pattern on a global and regional basis in the first half of 2015. Global crude steel production fell by 2.0% to 813.0 million tonnes in the first six months of 2015 (first half year 2014: 829.9 million tonnes).
- Approximately half of the global crude steel production takes place in the People's Republic of China. In comparison to the corresponding prior year period, in the light of reduced growth dynamics, the share of the PR of China fell by -1.3% to 410.0 million tonnes (first half year 2014: 415.4 million tonnes).
- The 28 EU states on the other hand achieved a slight increase of 0.5% to 88.1 million tonnes (compared to 87.7 million tonnes in the first half year 2014), which corresponds to a 10.8% share of global crude steel production (first half year 2014: 10.6%). This increase was mainly founded on additional production in Poland (+17.6% compared to the prior year period) and a number of countries with low production volumes (+12.7% compared to the prior year period).
- In Germany, crude steel production fell by about 1.5% to 22.1 million tonnes (first half year 2014: 22.5 million tonnes). This was the result of a building up of crude steel inventories in the first half of 2014, which was less pronounced in this year. At 3.8 million tonnes, crude steel production in the individual month of June was on the other hand 5.8% higher than in the corresponding prior year month (3.6 million tonnes).
- In particular in the light of the appreciation of the US Dollar, North American production decreased significantly by -6.9% to 55.9 million tonnes (compared to 60.1 million tonnes in the first half year 2014) – corresponding to a decrease in global market share to 6.9% (prior year period: 7.2%).

Raw materials prices for the steel industry – in particular iron ore – had been falling for approximately two years until the end of the first quarter of 2015. The principal cause for this was a substantial supply of iron ore. In the second quarter of 2015, a stabilisation or recovery at a low level of market prices for iron ore was noted. In view of this, steel scrap prices showed a similar development in the first half of 2015.

- Whilst reference category 2 iron scrap (according to the industry board BDSV) was still quoted at EUR 226.2 per tonne in January 2015, they fell to EUR 207.6 and EUR 204.2 in the months of February and March respectively. Towards the end of the first half of 2015, price levels recovered to EUR 221.3, i.e. a price reduction of -2.2% with a comparatively high level of volatility.

- Reference category 2 iron scrap (according to the industry board WV Stahl) showed a similar development. From January to June, prices per tonne fell from EUR 250.1 to EUR 242.3 (-3.1%) with a slightly lower volatility. The lowest price level of EUR 238.5 per tonne was reached in March.

The price development at the London Metal Exchange of other metals that are of relevance for the Scholz Group was similarly uneven.

- Whilst average copper prices quoted at the beginning of the year amounted to US\$5,815.8 per tonne and only fell below that level in February (US\$5,702.1 per tonne), price levels at the end of the half year were largely unchanged at US\$5,833.6, corresponding to an increase of 0.3%. The highest price level of US\$6,300.6 per tonne was noted in May.
- Nickel showed a less stable development during the course of the first half year. The average monthly price declined from USD 14,771.0 per tonne to USD 12,779.8 per tonne in June. This is equivalent to a price reduction of 13.5%.

In summary, the sector is faced with a slightly falling demand level on the part of the steel industry as well as volatile prices showing a downward trend for steel scrap and non-ferrous metals.

## **B. Development of Business over the Period under Review**

### **1. Significant Events during the Course of the Year to Date**

The disposal process of the Steel Trading segment of the Scholz Group to a strategic investor was largely completed in April 2015 with the settlement of the final purchase price instalment of EUR 20.0 million. Furthermore, divestment measures relating to the withdrawal from unattractive markets as well as the optimisation of the site network implemented in connection with the strategic realignment resulted in cash inflows of EUR 12.2 million. These funds were mainly applied to the repayment of bank loans.

In connection with the rating process initiated with Euler Hermes Rating GmbH in 2011, the rating of Scholz Holding GmbH was amended from “B positive” to “B stable” on 15 February 2015 in view of the continuingly difficult market situation, the charges arising in the context of the restructuring of the business and its capital structure. In the light of significant decisions outstanding with respect to the future capital structure of the business, an increase in financial risks, a further adjustment of the rating to “B-“ was made on 12 August 2015.

In connection with the ongoing business realignment of the Scholz Group, the transformation of the role of Scholz Holding GmbH to that of an operational holding entity has been developed further in the first half year. The formation of further regional organisational units (Balkans, Austria/Czech Republic, USA/Mexico, other countries) in line with the structure implemented for Germany/Poland in 2014 in conjunction with an organisational focusing of central functions at Group holding level is currently also continuing.

## 2. Sales development

In the first half year 2015, the total output of the Scholz Group amounted to c. EUR 1.3 billion. The decline in comparison to the corresponding prior year period (first half year 2014: EUR 1.6 billion) by EUR 0.3 billion or 17% is mainly the result of a lower tonnage volume (c. –400,000 to) and a falling price level (mainly in the first quarter of 2015). Compared to the prior year, the development of tonnages and sales in the first half year of 2015 was adversely affected by the difficult market situation in particular in Germany, the USA as well as Austria. The US market in particular suffered various pronounced adverse influences such as the strong Dollar as well as significant downturns in demand levels on the home and various main export markets.

Furthermore, the divestitures made resulted in a lower level of sales: The most significant effect came from the disposal of the Steel Trading segment sold in the second half of 2014. In the corresponding prior year period, sales of EUR 95.0 million had been realised in the segment.

## 3. Development of profitability

In the first half year 2015 the Scholz Group realised earnings before interest, tax, depreciation and amortisation (EBITDA) and extraordinary items of EUR 56.0 million (first half year 2014: EUR 71.0 million). The negative effect on sales resulting from the afore-mentioned essentially market-related tonnage developments was partially compensated by margin stemming resulting in particular from the measures aimed at improving margins in Germany, which led to in a reduction of the ratio of the cost of materials and services to total output by 1.7 percentage points to 80.3%. Furthermore, divestments, cost reduction measures as well as reduced volume-related costs led to a lower level of other operating costs and personnel costs.

The positive effects of the ongoing restructuring process initiated in 2013 were not sufficient on an overall basis to offset the mainly market-related sales shortfall. At EUR -4.1 million, the results from ordinary activities (EBT excluding extraordinary effects) were therefore slightly negative (first half year 2014: EUR 6.4 million profit).

As at June 2015 the Group shows an extraordinary result of EUR -6.1 million. This is essentially the result of a write-down of contingent assets receivable in connection with a legal claim as a result of a re-evaluation of the expected outcome of the litigation.

For the six months ending 30 June 2015, the Group shows losses after tax (EAT) of EUR 14.4 million. The first half year 2014 profit of EUR 77.9 million was mainly influenced by positive one-off effects arising in connection with the restructuring process.



#### **4. Investments**

In the first half year 2015, investments in tangible fixed assets amounted to EUR 21.0 million (corresponding prior year period: EUR 16.7 million) thereby falling short of depreciation on tangible fixed assets of EUR 25.9 million (corresponding prior year period: EUR 27.3 million). The divestitures as well as other asset disposals of the first half year 2014 resulted in a reduction of tangible fixed assets of EUR 17.2 million.

Apart from individual modernisation measures, investments essentially comprise asset replacements.

#### **5. Financing**

Credit facilities available to the Scholz Group as at 30 June 2015 for its ongoing financing requirements individually comprise three tranches of the syndicated loan (totaling EUR 494.0 million), a syndicated property loan (EUR 41.6 million), a debenture (EUR 182.5 million), various promissory notes (EUR 50.3 million), bilateral loans (EUR 70.1 million) and bilateral credit lines (EUR 147.2 million). In the first half year, the liquidity situation was sufficient at all times.

Disregarding off balance sheet credit facilities such as the asset backed security (ABS) programme and various factoring programmes, credit facilities totalling EUR 985.7 million were therefore available to the Scholz Group. A total of EUR 899.4 million (not considering a deduction of EUR 40.2 million for liquid funds) of these credit facilities was utilised.

In connection with the engagement of Toyota Tsusho Corporation, Nagoya, Japan, as co-shareholder of Scholz Holding GmbH in June 2014, a maturity date of 31 January 2017 was agreed for the main financing components of the Scholz Group. Additionally, no covenants are applicable at Scholz Holding GmbH level until the end of the first quarter of 2016. Financial covenants for the subsequent period are to be agreed in due course.

The maximum volume of the existing ABS programme, which has also been agreed for a term ending on 31 January 2017, amounted to EUR 181.1 million at the half year balance sheet date. Furthermore, the factoring agreement that has been in place since 2012 was continued, on the basis of which receivables up to an amount of EUR 20.0 million can be sold.

Furthermore, Scholz Holding GmbH has issued a promissory note to bearer with a value of EUR 7 million. This is included in other liabilities.

The future development of the Scholz Group is characterised by divestitures that have taken place or are scheduled for 2015 as well as tonnage reductions in the light of a more selective, margin-oriented procurement of supplies.

## 6. Personnel and Social Matters

The average number of staff members employed during the first half of 2015 amounted to 5,263 (average first half 2014: 5,826). Staff costs for the first half year 2015 amounted to EUR 86.2 million (corresponding prior year period: EUR 92.7 million).

## 7. Environmental Matters

All the scrap processing facilities of the Scholz Group located in Germany have the status of an approved specialised disposal business in accordance with the relevant legislation (“Kreislaufwirtschaftsgesetz”) and have been granted the relevant licenses in accordance with the relevant specialised disposal business regulations (“Entsorgungsfachbetriebeverordnung” or EFBV). Larger units are moreover certified in accordance with ISO 9001:2008.

## C. Comments on Significant Risks for Future Business Development

With respect to risks relating to the overall economic environment reference is also made to our evaluation on the development of the industry and the economy as a whole, which includes a commentary on general economic and sector-specific risks. Risks relating to the overall economic development in particular may in conjunction with the sector-specific risks give rise to a requirement for further corrections of carrying values within the Scholz Group. In addition to general economic and sector-specific risks, we would like to point out in particular the following risks relating directly to our business:

- Implementation risks with respect to the ongoing restructuring process as well as the planned further disposals of non-core business activities as well as non-operating assets.
- Implementation risks with respect to the planned efficiency improvement measures as well as measures aimed at realising synergistic benefits.
- Significant dependence on price development of scrap and secondary metals, which we are not in a position to influence. Furthermore, risks result from foreign exchange and stock price volatilities.
- Liquidity risks, approval and authorisation risks, regulatory risks concerning the recycling of used materials, various environmental risks.
- Risks relating to the adherence to or breaching of terms of existing and future financing arrangements.
- Risks in the context of the planned recapitalisation of Scholz Holding GmbH.

- Risks relating to the further adaptation of the risk management system to the organisational structure of the group.
- The Scholz Group is subject to certain uninsured or uninsurable risks.
- A further intensification of the currently already significant competitive pressure, e.g. due to continuing excess capacities.
- Intensification of political, legal and economic risks in the core markets of the Scholz Group.
- Risks arising as a result of possible litigation as well as other legal or public sector procedures or processes with authorities.
- General management risks such as dependence on key staff members.

#### **D. Ongoing Restructuring and Expected Business Development for 2015**

As a result of competitive pressure, which intensified further in 2015, and the excess capacities remaining in the scrap sector, the Scholz Group is strongly focused on realising all efficiency improvement, cost reduction and other consolidation measures to the maximum extent possible.

In some important market areas, such as the crucial region Germany/Poland, it has been possible to implement these measures to a significant extent, so that it was possible to realise sustainably profitable results for the region in 2015.

In the Austria/Czech Republic and Balkan regions, restructuring measures have been extended and intensified, already showing a noticeable effect on profitability for the current business year.

In view of the market collapse in the USA, the development in this region is subpar, thereby falling short of our expectations. As a consequence, restructuring efforts are being intensified and relevant measures expanded in this market, which is also very important for the Group.

The approach defined in connection with the restructuring process is being rigorously and continually pursued in order to simplify the Group structure further, to drive forward the process of focussing on core business areas as well as to continue the debt reduction programme of the business intensively. In addition to the further reduction of debt levels, the reinstatement of a positive equity level will be a key requirement for Scholz Holding GmbH. Toyota Tsusho Corp. (TTC), which has held a 39.9% share in Scholz Holding GmbH since mid-2014, informed the co-shareholder, the Scholz family (60.1% shareholding), that – whilst not participating in the capital measures – it has no reservations about the entry of new investors in the business. This decision has no effect on the ongoing operational business of the Scholz Group. In view of this, Scholz Holding GmbH has initiated a structured investment process, in the context of which it is intended to strengthen the equity basis of the company significantly. Strategic partners as well as financial investors with an interest in the sector from Germany and abroad are being addressed. This step was prepared during the course of the summer and is aimed at finalising the

successful restructuring process of the Group. The international recycling group is being advised by KPMG in connection with this. The investor process is aimed at obtaining a positive outcome already in the next few months.

Scholz Holding GmbH and its Group companies act globally, so that the development of their business is linked to the worldwide economic situation. For the second half of 2015, we expect a continuingly difficult business environment and uncertain outlook for the steel sector. We also expect that the sector will be faced with an intensely competitive environment with high pressure on margins in 2016. The restructuring programme, the debt reduction process which is being pursued further as well as the strengthening of the capital base of Scholz Holding GmbH are significant elements for the continuing positive development of the Scholz Group and are therefore aimed in particular at creating structures that will enable the maintenance of a sustainably profitable business with the potential to act flexibly even in very difficult market phases.

Essingen, 18 September 2015

The Management Board